

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2007**

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**JUNE 30, 2007**

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**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**OFFICIALS**

**JUNE 30, 2007**

Board of Trustees serving from January 1, 2007 through December 31, 2007

Name	Title	Term Expires
Charles Zahn	Chairman	12/31/07
Doug Farley	Secretary	12/31/10
Dennis Regal	Trustee	12/31/09
Craig Strutt	Trustee	12/31/09
Mike Eilers	Trustee	12/31/11

Board of Trustees serving from January 1, 2006 through December 31, 2006

Name	Title	Term Expires
Charles Zahn	Chairman	12/31/07
Doug Farley	Secretary	12/31/10
Dennis Regal	Trustee	12/31/09
Craig Strutt	Trustee	12/31/09
Mike Eilers	Trustee	12/31/11

# **O'CONNOR, BROOKS & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

G.L. HARDIN, CPA  
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M.A. KUEPERS, CPA  
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M.P. RUGGEBERG, CPA  
P.C. MCCARTHY, CPA  
E.A. SCHILLING, CPA

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
McGregor Municipal Utilities  
McGregor, Iowa

We have audited the accompanying statement of net assets of the McGregor Municipal Utilities (Electric and Water Enterprise funds) of McGregor, Iowa, as of and for the year ended June 30, 2007, and the related statements of activities, revenue, expenses and changes in fund net assets, and statement of cash flows as listed in the table of contents. These financial statements are the responsibility of the City of McGregor, Iowa, management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principals used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We did not observe the physical inventory as of June 30, 2006, since that date was prior to our engagement as auditors for the McGregor Municipal Utilities, nor did we perform procedures on cash, accounts receivable, payables, and loan payable accounts per request of management.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the results of operations and cash flows for the year ended June 30, 2007.

As discussed in Note 1, the financial statements present only the Electric and Water Enterprise funds and do not purport to, and do not, present fairly the financial position of the City of McGregor, Iowa, as of June 30, 2007, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United State of America.

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In our opinion, the statement of net assets referred to in the first paragraph presents fairly, in all material respects, the financial position of the Electric and Water Enterprise fund of the City of McGregor, Iowa, as of June 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 9, 2007, on our consideration of the McGregor Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 9 and budgetary comparison information on pages 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the city's business type activities. The accompanying other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for that portion labeled as "unaudited", which we express no opinion, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

O'CONNOR, BROOKS & CO., P.C.

*O'Connor, Brooks & Co., P.C.*

Dubuque, Iowa  
November 9, 2007

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

McGregor Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

McGregor Municipal Utilities prepared financial data using another comprehensive basis of accounting for the year ended June 30, 2006. Therefore, information is not easily comparable to prior years. In future years, comparisons will be more meaningful and will go further in explaining the Utility's financial position and results of operations.

**FINANCIAL HIGHLIGHTS**

- The Utilities' net assets increased by \$37,024 throughout the year's operation to \$684,634.
- During the year, the Utilities' expenses were \$710,891.
- The Utilities' service revenues for the year were \$722,119.
- The Utilities also recorded unrestricted investment earnings of \$8,286.
- The Water Fund reported a net result of income and expenses of \$(2,533).
- The Electric Fund reported a net result of income and expenses of \$39,557.
- The resources available for appropriation exceeded the budget by \$64,414.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of two parts – *management's discussion and analysis* (this section), and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the Utilities.

- The first two statements are *business type activities* financial statements that provide both long-term and short-term information about the Utilities' overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Utilities' government, reports the Utilities' operations in more detail than the government-wide statements
  - Proprietary fund statements offer short- and long-term financial information about the activities the Utilities operates like businesses.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Figure A-1 summarized the major features of the *business type activities* financial statements, including the portion of the Utilities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of McGregor Municipal Utilities Business Type Activities  
and Fund Financial Statements

	Business Type Activities	Fund Statements
		Proprietary Fund
Scope	Business type activities	Activities the Utilities operate similar to private businesses
Required financial statements	Statement of Net Assets Statement of Activities	Statement of Net Assets Statement of Revenues, Expenses, and Changes in Fund Assets Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

### Business Type Activities

The business type activities financial statements report information about the Utilities as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Utilities' assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two business type activities statements report the Utilities' net assets and how they have changed. Net assets - the difference between the Utilities' assets and liabilities - is one way to measure the Utilities' financial health, or position.

- Over time, increases or decreases in the Utilities' net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Utilities you need to consider additional nonfinancial factors such as changes in the Utilities' rates and the condition of the Utilities' equipment.

### Fund Financial Statements

The fund financial statements provide more detailed information about the business type activities. Funds are accounting devices that the Utilities use to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Utilities Board establishes other funds to control and manage money for a particular purpose or to show that it is properly using certain monies.

The Utilities has one kind of fund:

- *Proprietary fund* - Services for which the Utilities charge customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information
  - In fact, the Utilities' enterprise funds (one type of proprietary fund) are the same as its business type activities, but provide more detail and additional information, such as cash flows.

## FINANCIAL ANALYSIS OF THE UTILITIES AS A WHOLE

### Net Assets

The Utilities' combined net assets increased by \$37,024 throughout the year's operation to \$684,634. This includes \$8,286 of unrestricted investment earnings.

### Changes in Net Assets

The Utilities' total revenues (charges for services) during the year were \$722,119. Virtually all of the Utilities' revenue comes from user fees.

## FINANCIAL ANALYSIS OF THE UTILITIES FUNDS

### Summary and Analysis of Business Type Activities

The Utilities has produced business type activities financial statements using the Accrual Basis of accounting and economic resources measurement focus. The following tables present condensed information in net assets and changes in net assets for the year ended June 30, 2007.

Assets:		
Current assets	\$	484,704
Capital assets		257,048
		-----
Total Assets	\$	741,752
		-----
Total Liabilities	\$	57,118
		-----
Net Assets:		
Investment in capital assets,		
Net of depreciation	\$	222,263
Unrestricted		462,371
		-----
Total Net Assets	\$	684,634
		=====



The amount by which the Utilities' assets exceed its liabilities is called net assets. At year end, the Utilities' assets were \$684,637. Of that amount, approximately \$257,048 was invested in capital assets, net of depreciation related to those assets. The remaining \$427,586 was unrestricted and available for future use as directed by the Board of Trustees.

Revenues:	
Charges for service	\$ 722,119
Miscellaneous income	17,510
Interest earned	8,286
	-----
Total Revenues	\$ 747,915
	-----
Business Type Activities Expenses:	
Electric	\$ 637,429
Water	73,462
	-----
Total Business Type Activities Expenses	\$ 710,891
	-----
Increase (Decrease) in Net Assets	\$ 37,024
	=====

### **Budgetary Highlights**

The Utilities does not keep a separate budget; their budget is four line items on the City Budget, revenue for the Water and Electric with an expense for each also. The Utilities acknowledged \$56,128 more in charges for services than what was budgeted, and \$37,228 more of business type activities disbursements. The Utilities received \$8,286 of investment earnings that was not budgeted for the year. Leaving the net effect of a surplus of receipts and other financing sources under disbursements and other financing uses of \$27,186. Over the course of the year, the Utilities Board did not revise the budget.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

As of June 30, 2007, the Utilities had invested \$1,592,214 (\$257,048 net of accumulated depreciation) in a broad range of capital assets, including equipment, buildings, electric and water lines. This amount represents a net increase (including additions and deductions) of \$16,582 over last year. This year's major capital asset additions included extensions to the distribution system.

## Long-term Debt

At June 30, 2007, the Utility had \$34,785 in long-term debt. The loan is expected to be paid off in August, 2009. Additional information about the Utility's long-term debt is presented in Note 4 to the financial statements.

Outstanding Debt June 30, 2007					
	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
Note Payble	\$ 48,090	\$ ---	\$ 13,305	\$ 34,785	\$ 14,696

### Economic Factors Bearing on the Utilities' Future

The Utilities' largest vulnerability for sizeable capital project is a generator. There are two options if one of the three generators expires. The Utilities can purchase power at a higher rate or buy a new engine. The Board has decided when this happens to have an engineering study done to investigate what option would be best for the city.

We are still a member of UMMPA and have worked together with the other municipals to get a better wholesale cover contract through Dairyland Power Cooperative. A new contract is being discussed and will most likely be a 20 year agreement with some flexibility for each utility regarding generation. The new contract effective date is tentative scheduled for May, 2008. During this interim period, McGregor Municipal Utilities (MMU) has to be and will be incurring two transmission bills from April 1, 2007 to June 1, 2008 when Dairyland Power's Weston 4 unit is expected to come on line. Until this time, McGregor Municipal Utilities will have both MISO (Midwest Independent System Operation) and Dairyland Power transmission charges. After the Weston 4 unit comes on line, Dairyland plans on sourcing McGregor's energy from Weston 4, which is in the MISO area, to MMU, eliminating the Dairyland Power transmission charges.

In the future, the Utilities will be joining the two water systems (Well 6 & 7). The Utilities has no plans to issue additional debt to finance this project. Rather, the Board has decided to wait for the city to raise enough money through the TIFF district tax in order to fund the connection.

This year McGregor will have two new businesses open which is estimated to increase our electric load by 200 kilowatt peak demand and our water usage by 3%, approximately 5,500 cubic feet. One of the businesses is a coffee and sandwich shop which will have two condominiums above. The other business will be a supper club and microbrewery with two apartments on the third level.

MMU is involved jointly with other utilities in the Change-A-Light program which encourages our customers to purchase up to 12 compact fluorescent bulbs as low as 99 centers to help reduce energy use and waste. These bulbs use up to 2/3 less energy and last up to at least five years per bulb.

MMU is going to start a battery, cell phone and chargers, and ink cartridge recycling program to help clean our environment by reducing landfill waste.

## **CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers, and investors, and creditors with a general overview of the Utilities' finances and to demonstrate the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the McGregor Utilities office, 126 First Street, McGregor, IA 52157.

## **BASIC FINANCIAL STATEMENTS**

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**STATEMENT OF NET ASSETS  
JUNE 30, 2007**

	Business Type Activities -----
<b>Assets</b>	
Cash	\$ 155,493
Receivables:	
Customer accounts	
Net of allowance for doubtful accounts of \$7,048	96,666
Inventories	131,475
Restricted assets:	
Cash	101,070
Capital assets (net of accumulated depreciation)	257,048
	-----
Total Assets	\$ 741,752
	-----
<b>Liabilities</b>	
Accounts payable	\$ 14,096
Flex spending	1,925
Customer deposits (payable from restricted assets)	6,312
Long-term liabilities:	
Portion of note payable due within one year	14,696
Portion of note payable due after one year	20,089
	-----
Total Liabilities	\$ 57,118
	-----
Long-Term Liabilities	
<b>Net Assets</b>	
Invested in capital assets, net of related debt	\$ 222,263
Unrestricted	462,371
	-----
Total Net Assets	\$ 684,634
	=====

See notes to financial statements.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007**

			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions	Total
	Expenses	Charges for Service			
<u>Function/Program:</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
<b>Business Type Activities:</b>					
Electric	\$ 637,429	\$ 669,857	\$ ---	\$ ---	\$ 32,428
Water	73,462	69,772	---	---	(3,690)
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Total Business Type Activities	\$ 710,891	\$ 739,629	\$ ---	\$ ---	\$ 28,738
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
<b>General Revenues:</b>					
Unrestricted investment earnings					\$ 8,286
					<u>-----</u>
Total General Revenues					\$ 8,286
					<u>-----</u>
Change in net assets					\$ 37,024
					<u>-----</u>
Net assets – beginning of year					\$647,610
					<u>-----</u>
Net assets – end of year					\$684,634
					<u>=====</u>

See notes to financial statements.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS**

JUNE 30, 2007

	Proprietary Funds		
	Electric	Water	Total
<b>Assets</b>			
Cash	\$ 121,803	\$ 33,690	\$ 155,493
Receivables			
Customer accounts	87,254	9,412	96,666
Net of allowance for doubtful account of \$6,213 and \$835 respectively			
Inventories	98,102	33,373	131,475
Restricted assets:			
Cash	101,070	---	101,070
Capital assets (net of accumulated depreciation)	182,102	74,946	257,048
<b>Total Assets</b>	<b>\$ 590,331</b>	<b>\$ 151,421</b>	<b>\$ 741,752</b>
<b>Liabilities</b>			
Accounts payable	\$ 7,814	\$ 6,282	\$ 14,096
Flex spending	1,925	---	1,925
Payable from restricted assets:			
Customer deposits	6,312	---	6,312
Long-term liabilities:			
Portion of note payable due within one year	14,696	---	14,696
Portion of note payable due after one year	20,089	---	20,089
<b>Total Liabilities</b>	<b>\$ 50,836</b>	<b>\$ 6,282</b>	<b>\$ 57,118</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	\$ 147,317	\$ 74,946	\$ 222,263
Unrestricted			
Undesignated	307,559	70,193	377,752
Board designated	84,619	---	84,619
<b>Total Net Assets</b>	<b>\$ 539,495</b>	<b>\$ 145,139</b>	<b>\$ 684,634</b>

See notes to financial statements.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2007**

	Proprietary Funds		
	Electric	Water	Total
Operating Revenue			
Charges for service	\$ 655,003	\$ 67,116	\$ 722,119
MISO income	8,901	---	8,901
Miscellaneous	5,953	2,656	8,609
Total Operating Revenue	\$ 669,857	\$ 69,772	\$ 739,629
Operating Expenses:			
Production Expenses:			
Supervision and labor	\$ 36,098	\$ 6,940	\$ 43,038
Generator and boiler fuel	31,592	329	31,921
Power and pumping	---	6,342	6,342
Chemicals	---	1,926	1,926
Payroll taxes and IPERS	7,584	966	8,550
Sales and use taxes	23,204	4,361	27,565
Insurance - employee medical	6,782	878	7,660
Insurance - general	9,250	2,038	11,288
Supplies	4,120	139	4,259
Maintenance material and labor	9,188	3,273	12,461
Miscellaneous	1,201	---	1,201
Purchase electrical power	342,415	---	342,415
Total Production Expenses	\$ 471,434	\$ 27,192	\$ 498,626
Distribution Expenses:			
Supervision and labor	\$ 19,300	\$ 5,646	\$ 24,946
Truck expenses	3,426	672	4,098
Payroll taxes and IPERS	3,880	786	4,666
Insurance - employee medical	3,470	715	4,185
Insurance - general	6,167	510	6,677
Supplies	1,613	4,109	5,722
Maintenance material and labor	1,609	7,158	8,767
Miscellaneous	3,909	456	4,365
Water lab tests	---	685	685
Total Distribution Expenses	\$ 43,374	\$ 20,737	\$ 64,111

See notes to financial statements.



## EXHIBIT "D" (continued)

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2007**

	Proprietary Funds		
	Electric	Water	Total
Operating Expenses: (Continued)			
Accounting and Collection Expenses:			
Salary and wages	\$ 45,244	\$ 10,939	\$ 56,183
Payroll taxes and IPERS	6,174	1,523	7,697
Insurance - employee medical	5,520	1,385	6,905
Bad debts	1,760	77	1,837
Office supplies	6,772	485	7,257
Miscellaneous	3,484	501	3,985
Total Accounting and Collection Expenses	\$ 68,954	\$ 14,910	\$ 83,864
Administrative and General:			
Trustee and treasurer fees	\$ 738	\$ 738	\$ 1,476
Professional services & publications expenses	13,450	1,313	14,763
Supplies and miscellaneous	1,278	1,174	2,452
City - County garage	1,315	---	1,315
Energy efficiency program	2,030	---	2,030
Total Administrative and General Expenses	\$ 18,811	\$ 3,225	\$ 22,036
Total Operating Expenses Before Depreciation	\$ 602,573	\$ 66,064	\$ 668,637
Depreciation	31,878	7,398	39,276
Net Operating Expenses	\$ 634,451	\$ 73,462	\$ 707,913
Net Operating Revenue (Expense)	\$ 35,406	\$ (3,690)	\$ 31,716
Non-Operating Revenue (Expenses):			
Interest income	\$ 7,129	\$ 1,157	\$ 8,286
Interest expense	(2,978)	---	(2,978)
Total Non-Operating Revenue (Expense)	\$ 4,151	\$ 1,157	\$ 5,308
Change in Net Assets	\$ 39,557	\$ (2,533)	\$ 37,024
Net Assets Beginning of Year	499,938	147,672	647,610
Net Assets End of Year	\$ 539,495	\$ 145,139	\$ 684,634

See notes to financial statements.

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2007**

	Proprietary Funds		
	Electric	Water	Total
Cash Flows From Operating Activities:			
Cash received from customers and users	\$ 647,126	\$ 67,492	\$ 714,618
Cash received from other revenues	14,854	2,656	17,510
Cash paid for personal services	(134,052)	(29,778)	(163,830)
Cash paid to suppliers	(153,565)	(53,350)	(206,915)
Cash paid for purchased power	(342,415)	---	(342,415)
Net Cash Provided (Used) by Operating Activities	\$ 31,948	\$ (12,980)	\$ 18,968
Cash Flows From Capital and Related Financing Activities:			
Acquisition of capital assets	\$ (14,952)	\$ (1,630)	\$ (16,582)
Interest paid	(2,978)	---	(2,978)
Repayment of note	(13,305)	---	(13,305)
Net Cash Used for Capital and Related Financing Activities	\$ (31,235)	\$ (1,630)	\$ (32,865)
Cash Flows From Investing Activities:			
Interest on investments	\$ 7,129	\$ 1,157	\$ 8,286
Net Cash Provided by Investing Activities	\$ 7,129	\$ 1,157	\$ 8,286
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 7,842	\$ (13,453)	\$ (5,611)
Cash and Cash Equivalents Beginning of Year	215,031	47,143	262,174
Cash and Cash Equivalents End of Year	\$ 222,873	\$ 33,690	\$ 256,563

See notes to financial statements.

## EXHIBIT "E" (continued)

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2007**

	Proprietary Funds		
	Electric	Water	Total
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income (loss)	\$ 35,406	\$ (3,690)	\$ 31,716
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	31,878	7,398	39,276
Allowance for doubtful accounts	202	(150)	52
(Increase) in customer accounts receivable	(19,952)	(1,545)	(21,497)
(Increase) decrease in inventories, at cost	(16,467)	(16,142)	(32,609)
Increase (decrease) in accounts payable	1,187	1,149	2,336
Increase (decrease) flex spending	(750)	---	(750)
Increase in customer deposits	444	---	444
Net Cash Provided by Operating Activities	<u>\$ 31,948</u>	<u>\$ (12,980)</u>	<u>\$ 18,968</u>
Reconciliation of Cash and Cash Equivalents at Year End to Specific Assets Included on the Statement of Net Assets:			
Current Assets:			
Cash	\$ 121,803	\$ 33,690	\$ 155,493
Restricted Assets:			
Cash:			
Revenue contingency bond	84,619	---	84,619
Customer deposits	6,312	---	6,312
Special projects	10,139	---	10,139
Cash and Cash Equivalents at Year End	<u>\$ 222,873</u>	<u>\$ 33,690</u>	<u>\$ 256,563</u>

See notes to financial statements.

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**Note 1 - Summary of Significant Accounting Policies:**

The McGregor Municipal Utilities (the Utility) are separate enterprise funds of the City of McGregor. The Utility accounts for the cost of operations on a continuing basis.

The Utility provides electricity and water to properties within the City of McGregor and is managed by the Board of Trustees, who are appointed by the mayor and approved by the City Council.

The financial statements of the McGregor Municipal Utilities have been prepared in conformity with U.S. generally accepted accounting principals (GAAP) as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, the McGregor Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Utility has no component units which meet these criteria.

**B. Basis of Presentation**

Proprietary Fund Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the proprietary funds. For the most part, the effect of interfund activity has been removed from these statements. Business type activities rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the Utility's proprietary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**Note 1 - Summary of Significant Accounting Policies: (Continued)**

**B. Basis of Presentation (Continued)**

*Invested in capital assets*, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Interest earnings and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual proprietary funds are reported as separate columns in the fund financial statements.

The Utility reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the Utility's water system.

The Electric Fund is used to account for the operation and maintenance of the Utility's electric system.

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**Note 1 - Summary of Significant Accounting Policies: (Continued)**

**C. Measurement Focus and Basis of Accounting**

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are capitalized in proprietary funds.

The proprietary funds of the Utility apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utility's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**D. Assets, Liabilities and Fund Equity**

The following accounting policies are followed in preparing the financial statements:

Estimates - The preparation of financial statements in conformity with United States of America generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**Note 1 - Summary of Significant Accounting Policies: (Continued)**

**D. Assets, Liabilities and Fund Equity (Continued)**

Cash, Pooled Investments and Cash Equivalents – The cash balances of most Utility funds are pooled and invested. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

Customer Accounts Receivable – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed.

The Utility uses the allowance method of accounting for bad debts, which is a percentage of the accounts receivable. Bad debts charged against the Electric and Water Funds for the year ended June 30, 2007 were \$1,760 and \$77 respectively.

Inventories – Inventories consist of supplies, fuel oil and materials for distribution repair. Extensions are recognized as expense or capital improvements at the time they are put into service. Inventory items are valued at the lower of cost or market, using the first-in, first-out method.

Restricted Assets – Board designated funds set aside for the repair or replacement of the Utility's electric generators. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers or special projects.

Capital Assets – Capital assets include property, equipment and vehicles. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend asset lives are not capitalized.

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**D. Assets, Liabilities and Fund Equity (Continued)**

Capital assets of the Utility are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	10-33 years
Generators and Equipment	8-25 years
Distribution System	20-25 years
Vehicles	5-10 years
Office Equipment	10 years
Interconnect	25 years

Compensated Absences – Employees accumulate sick time and vacation for subsequent use. These accumulations are not considered material and are not recognized as expenditures by the Utility until used. The Utility's policy provides for payout of accumulated vacation and prohibits payoff of accumulated sick time at termination of employment. The Utility's approximate liability for earned vacation payments to employees at June 30, 2007 was \$1,469 for Electric Fund and \$490 for Water Fund. The liability has been computed based on rates of pay at June 30, 2007.

Fund Equity – In the proprietary fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the business type activities function.



**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

**Note 2 - Cash and Pooled Investments:**

The Utility's deposits in banks at June 30, 2007, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**Note 3 – Capital Assets:**

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	-----	-----	-----	-----
<b>Business Type Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,140	\$ ---	\$ ---	\$ 1,140
	-----	-----	-----	-----
Total Capital Assets Not Being Depreciated	\$ 1,140	\$ ---	\$ ---	\$ 1,140
	-----	-----	-----	-----
Capital Assets Being Depreciated:				
Buildings	\$ 71,526	\$ ---	\$ ---	\$ 71,526
Office equipment	23,779	---	---	23,779
Generators and equipment	632,399	---	---	632,399
Pump and equipment	16,081	---	---	16,081
Chlorinator	3,960	---	---	3,960
Distribution system	560,910	16,582	---	577,492
Interconnect	64,809	---	---	64,809
Vehicles	144,614	---	---	144,614
Well	12,005	---	---	12,005
Reservoir	44,409	---	---	44,409
	-----	-----	-----	-----
Total Capital Assets Being Depreciated	\$ 1,574,492	\$ 16,582	\$ ---	\$ 1,591,074
	-----	-----	-----	-----
Less Accumulated Depreciation For:				
Buildings	\$ 50,001	\$ 1,295	\$ ---	\$ 51,296
Office equipment	23,779	---	---	23,779
Generators and equipment	590,469	3,536	---	594,005
Pump and equipment	16,081	---	---	16,081
Chlorinator	3,960	---	---	3,960
Distribution system	441,208	13,127	---	454,335
Interconnect	64,809	---	---	64,809
Vehicles	75,364	18,600	---	93,964
Well	10,588	765	---	11,353
Reservoir	19,631	1,953	---	21,584
	-----	-----	-----	-----
Total Accumulated Depreciation	\$ 1,295,890	\$ 39,276	\$ ---	\$ 1,335,166
	-----	-----	-----	-----
Total Capital Assets Being Depreciated, Net	\$ 278,602	\$ 22,694	\$ ---	\$ 255,908
	-----	-----	-----	-----
Business Type Activities Capital Assets, Net	\$ 279,742	\$ 22,694	\$ ---	\$ 257,048
	=====	=====	=====	=====

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**Note 3 – Capital Assets: (Continued)**

Depreciation expense was charged to functions of the primary proprietary funds as follows:

Business type activities:

Water	\$ 7,398
Electric	31,878
	<u>-----</u>
Total depreciation expense – business type activities	<u><u>\$ 39,276</u></u>

**Note 4 – Long-term Debt (Note Payable):**

A summary of changes in long-term debt for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Note Payable	\$ 48,090	\$ ---	\$ 13,305	\$ 34,785	\$ 14,696
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>

The Utility purchased an aerial truck during the year ending June 30, 2006. The Utility paid cash of \$14,000 and financed the remainder by issuing a note for \$58,000. The note bears interest at a rate of 5.35% per annum with monthly interest and principal payments of \$1,350. A schedule summarizing future minimum payments on the note is as follows:

Year Ending June 30	Principal	Interest	Total
<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
2008	\$ 14,696	\$ 1,504	\$ 16,200
2009	15,502	698	16,200
2010	4,587	44	4,631
	<u>-----</u>	<u>-----</u>	<u>-----</u>
Total	\$ 34,785	\$ 2,246	\$ 37,031
	<u>-----</u>	<u>-----</u>	<u>-----</u>

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**Note 5 – Pension and Retirement Benefits:**

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$7,751, \$7,605, and \$7,145, respectively, equal to the required contributions for each year.

**Note 6 – Risk Management:**

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 7 – Firm Power Agreement:**

On November 20, 1996, the Utility entered into a "Firm Power Agreement" with Dairyland Power Cooperative. Under the terms of the agreement, the Utility will purchase from Dairyland Power Cooperative (rather than generate) the majority of its electrical energy. This Agreement became effective on April 1, 1997, and remains in effect through March 31, 2007. This Agreement shall renew for an intermediate term thereafter unless terminated by either party by written notice of at least 24 months to the other party. The Utility paid \$342,415 for purchased power under this agreement for the year ended June 30, 2007. The Utility is currently working with Dairyland Power Cooperative to draft a new contract.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF  
RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES –  
BUDGET AND ACTUAL (CASH BASIS) –  
PROPRIETARY FUNDS**

**REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2007**

	Proprietary Funds Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts:				
Charges for services	\$ 732,128	\$ 676,000	\$ 676,000	\$ 56,128
Investment earnings	8,286	---	---	8,286
Disbursements:				
Business type activities	713,228	676,000	676,000	37,228
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 27,186	\$ ---	\$ ---	\$ 27,186
Balances Beginning of Year	647,610	647,610	647,610	---
Balances End of Year	\$ 674,796	\$ 647,610	\$ 647,610	\$ 27,186

See accompanying independent auditor's report.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**BUDGET TO GAAP RECONCILIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007**

	Proprietary Funds Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 740,414	\$ 7,501	\$ 747,915
Expenditures/Expenses	713,228	(2,337)	710,891
Net	\$ 27,186	\$ 9,838	\$ 37,024
Beginning Fund Balances/Net Assets	647,610	---	647,610
Ending Fund Balances/Net Assets	<u>\$ 674,796</u>	<u>\$ 9,838</u>	<u>\$ 684,634</u>

See accompanying independent auditor's report.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007**

In accordance with the Code of Iowa, the Utility annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. Although the budget document presents function disbursements by fund, the legal level of control is at the city wide aggregated function level, not by fund.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the business type activities function.



## **OTHER SUPPLEMENTARY INFORMATION**

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**ELECTRIC FUND**

**SALES ANALYSIS FOR THE YEAR ENDED**  
**JUNE 30, 2007 – CASH BASIS WITH COMPARATIVE**  
**FIGURES FOR THE THREE PREVIOUS YEARS**  
**UNAUDITED**

	Year Ended			
	2007	2006	2005	2004
KWH Sold:				
Residential	3,378,067KWH	3,320,066KWH	3,102,636 KWH	3,150,104 KWH
Industrial	1,876,000KWH	1,819,200KWH	1,703,760 KWH	1,871,920 KWH
Commercial	1,479,934KWH	1,460,380KWH	1,362,512 KWH	1,472,208 KWH
Public authority	325,902KWH	294,376KWH	308,302 KWH	307,641 KWH
Others	328,462KWH	261,700KWH	271,169 KWH	271,767 KWH
Street lights	128,827KWH	130,183KWH	131,549 KWH	135,868 KWH
Total	7,517,192KWH	7,285,905KWH	6,879,928 KWH	7,209,508 KWH
KWH Sold: (Percent)				
Residential	44.94%	45.57%	45.11%	43.69%
Industrial	24.96%	24.97%	24.76%	25.96%
Commercial	19.69%	20.04%	19.80%	20.42%
Public authority	4.34%	4.04%	4.48%	4.27%
Others	4.37%	3.59%	3.94%	3.77%
Street lights	1.70%	1.79%	1.91%	1.88%
Total	100.00%	100.00%	100.00%	100.00%
Sales:				
Residential	\$ 312,016	\$ 276,786	\$ 274,092	\$ 243,218
Industrial	161,117	145,900	134,344	132,419
Commercial	130,688	118,335	111,471	106,642
Public authority	25,703	23,327	22,433	20,258
Other	20,949	20,796	14,899	14,899
Street lights	10,483	9,658	9,759	8,997
Total	\$ 660,956	\$ 594,802	\$ 568,517	\$ 529,487
Sales: (Percent)				
Residential	47.21%	46.53%	48.20%	45.93%
Industrial	24.38%	24.53%	23.63%	25.01%
Commercial	19.77%	19.87%	19.61%	20.14%
Public authority	3.89%	3.92%	3.95%	3.83%
Others	3.16%	3.50%	2.89%	3.39%
Street lights	1.59%	1.65%	1.72%	1.70%
Total	100.00%	100.00%	100.00%	100.00%
Selling Price Per KWH:				
Residential	\$ .09236	\$ .08337	\$ .08834	\$ .07721
Industrial	.08588	.08020	.07885	.07074
Commercial	.08831	.08103	.08181	.07244
Public authority	.07887	.07924	.07276	.06585
Others	.06378	.07947	.06055	.06606
Street lights	.08137	.07417	.07419	.06622
Average all types	\$ .08176	\$ .07958	\$ .08263	\$ .07344

See accompanying independent auditor's report.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**ELECTRIC FUND**

**COMPARATIVE STATISTICAL DATA – KWH PRODUCED AND PURCHASED  
AND KWH SOLD AND LOST**

**UNAUDITED**

	<b>Year Ended</b>			
	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004
KWH produced and purchased	7,930,025	7,737,237	7,235,521	7,476,293
Less: sold	7,517,192	7,285,905	6,879,928	7,209,508
Balance Unsold	412,833	451,332	355,593	266,785
Percent Sold	94.79%	94.17%	95.09%	96.43%
Unsold Balance Used as Follows:				
Station service	105,950	104,340	121,400	119,070
Line loss and unaccounted for	306,883	346,992	234,193	147,715
	412,833	451,332	355,593	266,785
Line Loss Percentage	3.87%	4.48%	3.24%	1.98%

See accompanying independent auditor's report.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**WATER FUND**

**COMPARATIVE STATISTICAL DATA  
WATER SOLD AND WATER PUMPED**

**UNAUDITED**

	<b>Year Ended</b>			
	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004
Cubic feet of water pumped	5,390,789	5,504,091	5,872,901	5,776,484
Less: metered sales	3,208,808	3,382,783	3,289,339	3,561,883
Balance (unmetered sales and unsold water)	2,181,981	2,121,308	2,583,562	2,214,601
Percent of metered sales to water pumped	59.52%	61.46%	56.01%	61.66%

See accompanying independent auditor's report.

# **O'CONNOR, BROOKS & CO., P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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S.J. DOMEYER, CPA  
M.A. KUEPERS, CPA  
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M.P. RUGGEBERG, CPA  
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E.A. SCHILLING, CPA

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
McGregor Municipal Utilities  
McGregor, Iowa

We have audited the financial statements of the McGregor Municipal Utilities of the City of McGregor, Iowa, as of and for the year ended June 30, 2007, and have issued our report thereon dated November 9, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered McGregor Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of McGregor Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of McGregor Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects McGregor Municipal Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of McGregor Municipal Utilities' financial statements that is more than inconsequential will not be prevented or detected by McGregor Municipal Utilities' internal control.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by McGregor Municipal Utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. The significant deficiencies described in items I-A-07 and I-B-07 are also considered to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the McGregor Municipal Utilities financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the McGregor Municipal Utilities' operations for the year ended June 30, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the entities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the McGregor Municipal Utilities of the City of McGregor and other parties to whom the Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the McGregor Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

O'CONNOR, BROOKS & CO., P.C.

*O'Connor, Brooks & Co., P.C.*

Dubuque, Iowa  
November 9, 2007

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007**

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted

**SIGNIFICANT DEFICIENCIES/MATERIAL WEAKNESSES:**

I-A-07     **Segregation of Duties** – The size of the Utility's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

**Recommendation** – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances, and the Board of Trustees remain involved in the financial affairs of the Utility to provide oversight and independent review functions.

**Response** – We will consider this.

**Conclusion** – Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-07     **Cash Reconciliation** – Cash is being reconciled from the Utility's bank statements to the cash subsidiary ledger, however the reconciled cash balance is not being compared to the general ledger balance.

**Recommendation** – A cash reconciliation that reconciles from the bank balance to the general ledger balance should be prepared to make sure they are in agreement and to determine that all cash transactions have been recorded properly and to discover bank errors.

In order to make the financial reports generated by the accounting system as meaningful as possible, the Utility should reconcile the general ledger accounts for cash to supporting documentation on a monthly basis. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

**Response** – Cash will be reconciled to the general ledger in the future.

**Conclusion** – Response accepted.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007**

**Part II: Other Findings Related to Required Statutory Reporting:**

II-A-07     **Certified Budget** – Disbursements during the year ended June 30, 2007, exceeded the amounts budgeted in the business type activities function. Chapter 384.20 of the Code of Iowa states, in part, "public monies may not be expended or encumbered except under an annual or continuing appropriation."

**Recommendation** – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

**Response** – The budget will be amended in the future, if applicable.

**Conclusion** – Response accepted.

II-B-07     **Questionable Disbursements** – We noted no expenditures for parties, banquets or other entertainment for utility employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-07     **Travel Expense** – No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.

II-D-07     **Business Transactions** – No business transactions between the Utility and Utility officials or employees were noted.

II-E-07     **Bond Coverage** – Surety bond coverage of city officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-07     **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes which were not.

II-G-07     **Deposits and Investments** – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy.